

Longfor Group

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DBS Group Research . Equity

10 Jan 2024

BUY

Last Traded Price (9 Jan 2024): HK\$11.04 (HSI : 16,190)
Price Target 12-mth: HK\$18.00 (63% upside) (Prev HK\$27.82)

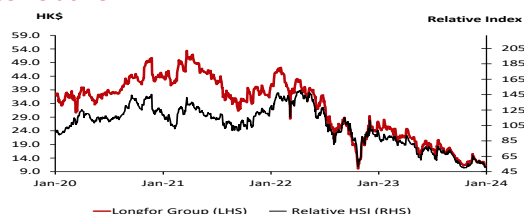
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What's New

- Presales and refinancing are key factors to watch
- Toll on development earnings following two consecutive years of double-digit presales decline as well as recognition of lower margin projects and possible inventory impairment
- Cut FY23-25F earnings by 32-39% on downward adjustments on revenue recognition and margin assumptions
- Headwinds in-price at merely c.4x FY24F PE even after factoring earnings cuts; Maintain BUY with TP of HK\$18.0/sh

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2022A	2023F	2024F	2025F
Turnover	250,565	181,644	186,295	201,026
EBITDA	134,393	62,734	74,232	83,173
Pre-tax Profit	45,822	22,101	25,753	28,674
Net Profit	24,362	13,109	14,053	15,259
Core Profit	22,540	13,109	14,053	15,259
Core Profit Gth (%)	0.4	(41.8)	7.2	8.6
Core EPS (RMB)	3.72	2.16	2.32	2.52
Core EPS (HK\$)	4.06	2.36	2.53	2.75
Core EPS Gth (%)	0.4	(41.8)	7.2	8.6
Core PE (X)	2.7	4.7	4.4	4.0
P/Cash Flow (X)	6.2	3.9	1.1	0.7
EV/EBITDA (X)	2.1	4.6	4.0	3.7
DPS (HK\$)	1.27	0.71	0.76	0.82
Div Yield (%)	11.5	6.4	6.9	7.5
Net Gearing (%)	58.1	54.9	53.1	52.9
ROE (%)	18.2	8.9	9.0	9.2
Book Value (HK\$)	25.57	27.23	29.00	30.92
P/Book Value (X)	0.4	0.4	0.4	0.4
EPS Rev (%)		(39)	(35)	(32)
Consensus EPS (RMB)		3.28	3.32	3.61
Other Broker Recs:		B:30	S:0	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Facing temporary headwinds

Investment Thesis

One of the last standing POE developers. Known for its prudent financial management, Longfor is the only developer with a pure POE background that still holds an investment grade rating from two foreign rating agencies amid the sector turbulence. Longfor also has an established and rapidly growing recurring income stream from its shopping mall, rental housing and property service businesses, adding resilience into its earnings profile (c.49% of gross profit in 1H23A). Longfor has consistently generated above-peers core ROE in the past few years.

Development earnings to take a toll. On one hand, development revenue is expected to slide further with the company's presales suffering two consecutive years of double-digit declines. On another, development margins will likely face pressure from the recognition of lower-margin projects and inventory impairments as a result of a further deterioration in the physical market. We have accordingly cut our FY23-25F earnings by 32-39%.

Progress on presales and refinancing are key factors to watch.

Despite its sound financial management track record and resilient balance sheet so far, Longfor's liquidity has come under market scrutiny given the weakening physical market and tough onshore and offshore refinancing environments. So far, refinancing appears to be on track as Longfor has secured a net increase of c.Rmb17bn in CMBS and has fully repaid its offshore syndicated loan that was due in Dec-23 as scheduled. While 2023 presales fell short of its original target of Rmb200bn, Longfor's cash collection was largely on-target at Rmb156bn (vs budgeted Rmb160bn). The company's presales performance and refinancing status are items to monitor and may serve as share price catalysts if the two factors skew in a positive direction.

Maintain BUY, HK\$18.0/sh TP. Our TP is based on 0.67x FY24F PB, equivalent to its average forward PB since Nov-22 when market scrutiny was raised amid heightened liquidity concerns.

Key Risks

Tougher than expected refinancing environment; stricter than expected presales escrow account control; weaker than expected presales performance and development margins

At A Glance

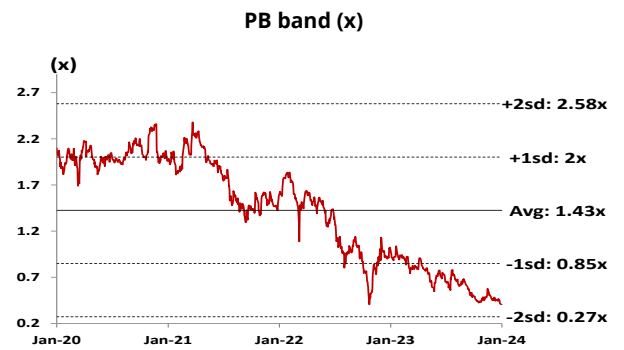
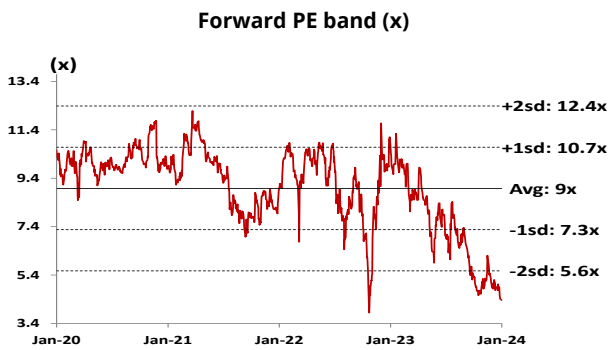
Issued Capital (m shrs)	6,282
Mkt Cap (HKm/US\$m)	69,353 / 8,873
Major Shareholders (%)	
Charm Talent International Ltd	44.0
Silverland Assets Ltd	21.0
Woo (Kwong Ching)	6.5
Free Float (%)	28.6
3m Avg. Daily Val. (US\$m)	25.91
GICS Industry: Real Estate / Real Estate Management & Development	

Longfor Group

Company Background

Longfor Group (Longfor) was founded in Chongqing in 1993 and listed on the Hong Kong Stock Exchange in 2009. Longfor is primarily engaged in property development, investment, and management. It has built a nationwide presence over the years with a land bank of 54.9m sm as at Jun 23. Longfor's contracted sales has ranked in the top 10 among HK-listed China property developers since its listing and was one of the first developers involved in the development of shopping malls in China. The company has built an extensive track record of over 15 years in the maintenance and operation of commercial properties.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

Longfor Group

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Property Development	204,546	227,017	155,741	156,507	168,259
Property Investment	10,414	11,880	13,068	15,028	16,531
Property Management	8,416	11,668	12,835	14,760	16,236
Total	223,375	250,565	181,644	186,295	201,026

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Turnover	223,375	250,565	181,644	186,295	201,026
Cost of Goods Sold	(166,835)	(197,527)	(153,543)	(153,580)	(164,516)
Gross Profit	56,541	53,038	28,101	32,715	36,510
Other Opg (Exp)/Inc	(16,285)	(12,132)	(8,588)	(9,114)	(9,724)
Operating Profit	40,256	40,906	19,512	23,601	26,786
Associates Inc	2,932	1,421	1,279	1,023	819
Net Interest (Exp)/Inc	1,060	1,144	1,310	1,129	1,069
Exceptional Gain/(Loss)	3,378	2,350	0	0	0
Pre-tax Profit	47,627	45,822	22,101	25,753	28,674
Tax	(15,839)	(12,999)	(6,270)	(7,306)	(8,135)
Minority Interest	(7,935)	(8,461)	(2,723)	(4,395)	(5,281)
Net Profit	23,854	24,362	13,109	14,053	15,259
Core Profit	22,440	22,540	13,109	14,053	15,259
Sales Gth (%)	21.0	12.2	(27.5)	2.6	7.9
Net Profit Gth (%)	19.3	2.1	(46.2)	7.2	8.6
Core Profit Gth (%)	20.1	0.4	(41.8)	7.2	8.6
Gross Mgn (%)	25.3	21.2	15.5	17.6	18.2
Core Profit Margin (%)	10.0	9.0	7.2	7.5	7.6
Tax Rate	33.3	28.4	28.4	28.4	28.4

Source: Company, DBS HK

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed Assets	3,649	2,770	2,412	2,053	2,053
Invt in Assocs & JVs	26,747	29,186	29,186	29,186	29,186
Other LT Assets	200,867	214,580	214,580	214,580	214,580
Cash & ST Invt	88,535	72,624	63,423	60,430	52,478
Other Current Assets	555,854	467,614	483,007	506,276	549,354
Total Assets	875,651	786,774	792,608	812,525	847,651
ST Debt	14,501	20,657	20,657	20,657	20,657
Creditors	329,060	218,624	222,559	228,244	247,409
Other Current Liab	102,982	96,594	96,594	96,594	96,594
LT Debt	177,565	187,351	177,351	177,351	177,351
Other LT Liabilities	29,665	30,369	30,369	30,369	30,369
Minority Interests	96,928	91,079	93,801	98,196	103,477
Shareholder's Equity	124,949	142,100	151,276	161,113	171,794
Total Capital	875,651	786,774	792,608	812,525	847,651
Share Capital (m)	6,058	6,058	6,058	6,058	6,058
Net Cash/(Debt)	(103,532)	(135,384)	(134,585)	(137,578)	(145,530)
Working Capital	123,812	152,396	163,854	181,438	205,351
Net Gearing (%)	46.7	58.1	54.9	53.1	52.9

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Profit Before Tax	47,627	45,822	22,101	25,753	28,674
Assoc. & JV Inc/(loss)	(1,586)	(641)	0	0	0
Tax Paid	(15,897)	(17,676)	(6,270)	(7,306)	(8,135)
Depr/Amort	359	359	359	359	359
Chg in Wkg.Cap.	3,920	(16,771)	1,041	38,916	68,587
Other Non-Cash	(5,893)	(1,486)	(1,310)	(1,129)	(1,069)
Operating CF	28,532	9,961	15,922	56,593	88,415
Net chg in inv.	(14,567)	(10,215)	0	0	0
Assoc, MI, Invsmt	(34,165)	(2,197)	(12,500)	(56,500)	(92,859)
Investing CF	(48,732)	(12,412)	(12,500)	(56,500)	(92,859)
Net Chg in Debt	26,161	16,654	(10,000)	0	0
New Capital	119	32	0	0	0
Dividend	(8,671)	(5,512)	(3,933)	(4,216)	(4,578)
Other Financing CF	13,689	(24,732)	1,310	1,129	1,069
Financing CF	31,298	(13,558)	(12,623)	(3,087)	(3,508)
Chg in Cash	11,098	(16,009)	(9,201)	(2,993)	(7,952)
Chg in Net Cash	(13,992)	(31,852)	799	(2,993)	(7,952)

Source: Company, DBS HK

Longfor Group

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	2-Feb-23	HK\$25.85	HK\$29.25	Buy
2:	20-Mar-23	HK\$21.85	HK\$29.51	Buy
3:	24-Jul-23	HK\$16.16	HK\$27.82	Buy
4:	21-Aug-23	HK\$15.98	HK\$27.82	Buy

Source: DBS HK

Analyst: Jason Lam
 Dexter Chun
 Ben Wong

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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